

# FTSE Fixed Income Country Classification Announcement September 2021

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## 1. FTSE Emerging Markets Government Bond Index Inclusion Changes

In March 2021, FTSE Russell announced that Saudi Arabia would be included on its Watch List for potential reclassification of its Market Accessibility Level from “0” to “1”, and consideration for inclusion in the FTSE Emerging Markets Government Bond Index (EMGBI). Since launching a standalone government bond index tracking local currency Saudi Arabian government bonds in September 2020, FTSE Russell has engaged with local regulators in Saudi Arabia, as well as index users, to understand the market structure and investor experiences.

FTSE Russell is pleased to announce the inclusion of local currency Saudi Arabian government sukuk in the EMGBI, effective from the April 2022 profiles. As of the September 2021 profiles, 42 bonds with SAR 306.1 billion (USD 81.6 billion) in par amount outstanding are projected to be included in the EMGBI and would comprise 2.75% of the index on a market value weighted basis. To ensure comprehensive index coverage for global government bond markets, FTSE Russell will continue to track both sukuk and non-sukuk as part of its standalone FTSE Saudi Arabian Government Bond Index.

## 2. FTSE Frontier Emerging Markets Government Bond Index Inclusion Changes

In April 2021, FTSE Russell launched the FTSE Frontier Emerging Markets Government Bond Index Series. This index is designed to measure the performance of fixed-rate, local currency government bonds issued by countries classified as Frontier Emerging Markets based on its rules-based criteria. The objective of this index series is to create a transparent universe of emerging local currency bond markets that may not yet be considered mainstream emerging markets, but are deemed to be investable for global portfolio managers based on an objective set of technical criteria. Market inclusion for this index series is reviewed on a semi-annual basis in September and March as part of the FTSE Fixed Income Country Classification Process.

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FTSE Russell is pleased to confirm that Kazakhstan local currency government bonds will be included in the FTSE Frontier Emerging Markets Government Bond Index Series (FRNTEMGBI), effective from the April 2022 profiles. As of the September 2021 profiles, 35 bonds with KZT 5.449 trillion (USD 12.8 billion) in par amount outstanding are projected to be included in the FRNTEMGBI.

### **3. FTSE World Inflation-Linked Securities Index Inclusion Changes**

As part of the March 2021 Fixed Income Country Classification Review, FTSE Russell announced that the Fixed Income Country Classification Framework would be expanded to assign Market Accessibility Levels to local currency inflation-linked government bond markets. Effective 30 June 2021, a minimum Market Accessibility Level of “2” is required for a country to be included in the FTSE World Inflation-Linked Securities Index (WorldILSI). Additionally, owing to the separate and distinct debt management practices of local governments for their nominal and inflation-linked debt, a minimum market size criterion of USD 10 billion has been implemented as the threshold for determining inclusion in the WorldILSI. In making these changes, the WorldILSI no longer derives its membership solely from the WGBI.

FTSE Russell confirms that inflation-linked New Zealand government bonds will be included in the WorldILSI, effective from the April 2022 profiles. As of the September 2021 profiles, four bonds with NZD 16.5 billion (USD 11.6 billion) in par amount outstanding are projected to enter the WorldILSI and would comprise 0.45% of the index on a market value weighted basis.

### **4. Status of Watch List Markets**

#### **Switzerland**

In March 2021, FTSE Russell announced that it would consider Switzerland for re-entry in the WGBI at its semi-annual Fixed Income Country Classification Review in September 2021. Subsequently, FTSE Russell has engaged with Swiss regulators and index stakeholders to understand the Swiss government bond market structure, with a focus on the application of the prevailing taxation regime for foreign investors. After careful consideration, Switzerland will now be assigned a Market Accessibility Level of “1” and placed on the Watch List for a potential upgrade to Market Accessibility Level “2” and inclusion in the WGBI.

Based on feedback from international investors, FTSE Russell understands that the reclamation process for the Withholding Tax that is applied to Swiss government bonds does not satisfactorily meet the Taxation Regime requirements specified in the FTSE Fixed Income Country Classification Framework. The Framework states that the process *“must not be lengthy or cumbersome”* for foreigners. FTSE Russell will continue to engage with Swiss regulators to share feedback on index users’ practical experiences of the local market, as well as monitor ongoing reforms to the tax administration process and other market structure enhancements which may improve the ease with which international investors transact in the market.

#### **India**

In March 2021, India was added to the Watch List for potential reclassification of its Market Accessibility Level from “0” to “1”, and consideration for inclusion in the FTSE Emerging Markets Government Bond Index (EMGBI). As part of the September 2021 semi-annual Fixed Income Country Classification Review, FTSE Russell has taken the decision to retain India on the Watch List.

Feedback from global index users has highlighted an interest in Indian government securities issued through the Fully Accessibility Route (FAR), which was introduced in 2020. The FAR removes foreign ownership restrictions for all new issuance of government securities with 5-, 10-, and 30-year tenors. To make the universe of securities issued under the FAR more transparent, FTSE Russell launched a version of its FTSE Indian Government Bond Index that tracks this universe of securities. As of the September 2021 profiles, 14

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bonds with INR 14.3 trillion (USD 196.1 billion) in par amount outstanding are tracked by the FAR Index, and comprise 20.1% of the overall FTSE Indian Government Bond Index on a market value weighted basis.

FTSE Russell has engaged with the Reserve Bank of India (RBI) to further understand the planned programme of enhancements to improve the accessibility of the local market structure for international investors. Feedback from index users has highlighted that changes to margin requirements and trade reporting, as well as ongoing reforms to the taxation regime that may facilitate the availability of Indian government bonds on global settlement platforms, would support a future reclassification of India's Market Accessibility Level.

FTSE Russell looks forward to continuing the constructive dialogue that has taken place with the RBI and will continue to seek feedback from index stakeholders on their practical experiences as they relate to ongoing, positive reform efforts.

## **5. Annual Review of Local Currency Amount Outstanding Minimums**

In March 2021, FTSE Russell announced that it will incorporate a formal and scheduled annual review of the local currency amount outstanding minimums used to determine index eligibility which may result in recalibrations of local thresholds based on feedback from market participants. Starting with the September 2021 review, these minimums were reviewed as part of the FTSE Fixed Income Country Classification Process to ensure that FTSE Russell's indices remain representative of the local market structures that they are designed to track.

FTSE Russell confirms that no changes will be made to the minimum bond-level amount outstanding amounts for local currency fixed-rated and inflation-linked markets eligible for a FTSE fixed income index as part of the September 2021 review.

## **6. Review of Market Size and Credit Rating Criteria for FTSE Fixed Income Indices**

As part of each semi-annual FTSE Fixed Income Country Classification Review, objective index inclusion criteria for market size and credit rating are assessed to ensure a consistent approach to market inclusion in FTSE global government bond indices.

FTSE Russell confirms there are no index inclusion changes due to changes in market size and credit rating.

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FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

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